F. H. Deacon & Company Limited

MEMBERS OF THE TORONTO STOCK EXCHANGE

INVESTMENTS
Business Established 1897

181 BAY STREET - TORONTO 1, CANADA

CABLE "DEACON"

TELEPHONE EMPIRE 2-4492

F. COULTER DEACON
JOHN S. DEACON
J. REG. FINDLEY
DONALD M. DEACON
ROBERT D. TELFER
CHARLES N. POWER

JOHN W. HETHERINGTON
DONALD A. JEWITT
JOHN C. MOORHOUSE
ALLAN P. FISHER
HAROLD J. KNIGHT

AN INVESTMENT STUDY

File

OF

GENERAL STEEL WARES LIMITED

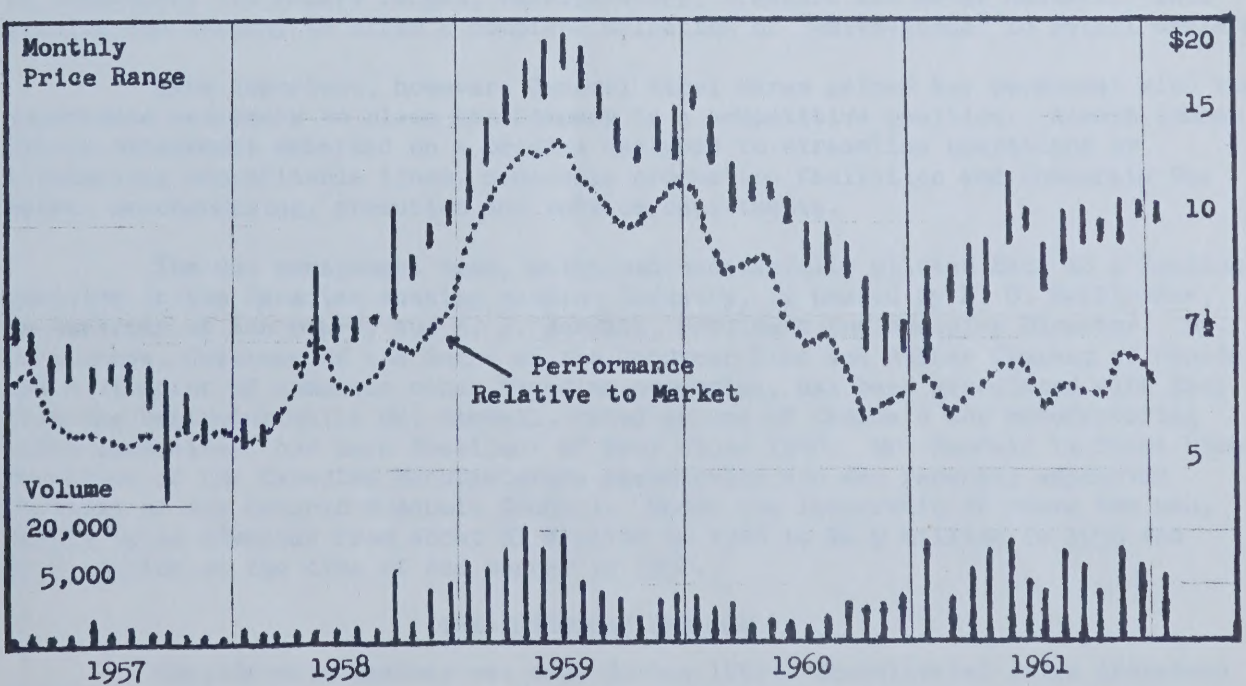
DATA

	Total Sales	Operating Profit	Cash Flow	Net Profit	Cash Flow	Net Profit	Net Profit % of Sales	Return on Invested Capital	Price Range
	- - - - - $Millions			- - - - -	- Per Share -				
1961E.	40.0	N.A.	1.5	0.5	$2.77	$0.63	1.25	8.65%	$12¼ - 7
1960	34.7	0.7	0.3	(d)0.57	0.355	(d)1.62	-	3.56%	16½ - 7
1959	39.0	2.7	(1)1.4	(1)0.61	(1)2.58	(1)0.85	(1)1.43	(1)8.47%	19¼ - 10¾
1958	28.4	1.9	1.0	0.60	1.70	1.26	2.11	6.15%	11 - 5⅜
1957	27.9	1.6	0.9	0.5	2.20	0.92	1.79	6.74%	8 - 4½
1956	29.6	1.6	0.9	0.5	2.18	0.91	1.69	6.86%	11⅛ - 7⅛
1955	27.3	1.5	0.8	0.49	2.14	0.87	1.81	6.87%	11 - 9
1954	25.5	1.2	0.7	0.36	1.72	0.44	1.41	6.24%	16½ - 10⅛
1953	27.4	2.0	1.1	0.75	2.98	1.70	2.75	8.50%	17½ - 15
1952	27.1	2.7	1.4	1.04	3.88	2.59	3.84	9.52%	17½ - 15
1951	24.7	2.0	1.2	0.81	3.10	1.82	3.28	7.80%	23 - 15

(d) Deficit. E.-Estimated

(1) Excludes 33¢ per share profit on sale of fixed assets.

1959 and subsequent results reflect consolidation of Easy Washing Machine Co.



SUMMARY

Earnings of General Steel Wares, leading Canadian manufacturer of household utensils and electric appliances, are believed to have recovered notably during 1961. When results for the 1961 fiscal year are released sometime in April, the Company is expected to report pre-tax profits in the neighbourhood of $500,000 compared to a pre-tax loss of $838,381 for the 1960 fiscal year.

An accelerated pace in the second half of 1961 accounted for most of the improvement. On the assumption that the economic climate will remain favourable into 1963, pre-tax profits in 1962 could expand to better than $1,000,000. Thus the turn-around in earnings may be the beginning of a profitable period, reversing a down-hill trend which began in 1951.

Based on estimated sales of $45 million in 1962, net profit after taxes could amount to about $500,000 or 1.11% of sales. This earnings estimate may turn out to be too conservative since it is considerably below the 1954 - 59 average of 1.79% of sales and far short of President Randall's goal of a 5% net return on sales. It should be mentioned that write-offs over the past three years were double the previous rate, and distort net profit comparisons. While the optimistic objective of a 5% return on sales may take some time to achieve, there is a good possibility of producing a 10% return on invested capital which could raise net profit to about $1.10 per share. At the same time, a return of 2% on sales of $45 million would boost earnings to about $1.50 per share. Thus, the common shares are highly leveraged both as to sales and as to capital employed in the business. At the current price of $10 the common shares of General Steel Wares have interesting capital gains potential.

TROUBLED HISTORY

From a peak level of $3.71 per share in 1951, earnings of General Steel Wares declined to 44¢ per share in 1954 before recovering to $1.26 in 1958. Despite capital expenditures of $8 million, between 1950 and 1958, the Company was only able to achieve a 3% gain in sales from $27.5 million to $28.4 million. Increased operating costs caught the Company, like many secondary manufacturers, in a well publicized profit squeeze. Profit margins deteriorated from 3.84% of sales in 1952 to 2.11% in 1958 and return on invested capital declined from 9.52% in 1952 to 6.15% in 1958.

WHAT THE MERGER MEANT

Late in 1958, General Steel Wares and The Easy Washing Machine Company were merged on a share exchange basis. GSW became the continuing company but major shareholders of Easy Washing held effective control and the management of Easy took over direction of the combined operations.

General Steel Wares acquired the leading washing machine line in Canada to complement its McLary ranges, refrigerators, freezers and water heaters. This enabled the Company to offer a complete selection of "white-goods" to retail dealers.

More important, however, General Steel Wares gained key personnel with the experience necessary to place the Company in a competitive position. Almost immediately management embarked on a program designed to streamline operations by eliminating unprofitable lines, modernize production facilities and integrate the sales, merchandising, promotion and service departments.

The new management team, which had successfully piloted Easy to a leading position in the Canadian washing machine industry, is headed by R. C. Berkinshaw, as Chairman of the Board, and S. J. Randall, President and Managing Director. Mr. Berkinshaw, Chairman of the Board of the Goodyear Tire and Rubber Company of Canada and a director of numerous other Canadian companies, has been associated with Easy from the beginning while Mr. Randall, rated as one of Canada's top manufacturing sales executives, had been President of Easy since 1948. Mr. Randall is First Vice-President of the Canadian Manufacturers Association and was recently appointed Chairman of the Ontario Economic Council. Under the leadership of these two men, Easy's sales advanced from about $1 million in 1946 to $2.9 million in 1950 and $7.7 million at the time of the merger in 1958.

THE INVENTORY PROBLEM

Considerable headway was made during 1959. Consolidated sales increased 8.1% over 1958 to $39 million despite the elimination of lines which had produced $2½ million sales volume in 1958. In anticipation of a further sales increase in 1960 and the possibility of a steel strike in the U.S., inventories of raw materials,

SUMMARY

Earnings of General Steel Wares, leading Canadian manufacturer of household utensils and electric appliances, are believed to have recovered notably during 1961. When results for the 1961 fiscal year are released sometime in April, the Company is expected to report pre-tax profits in the neighbourhood of $300,000 compared to a pre-tax loss of $836,381 for the 1960 fiscal year.

An accelerated pace in the second half of 1961 accounted for most of the improvement. On the assumption that the economic climate will remain favourable into 1963, pre-tax profits in 1962 could expand to better than $1,000,000. Thus the turn-around in earnings may be the beginning of a profitable period, reversing a down-hill trend which began in 1951.

Based on estimated sales of $45 million in 1962, net profit after taxes could amount to about $500,000 or 1.11% of sales. This earnings estimate may turn out to be too conservative since it is considerably below the 1954 - 59 average of 1.79% of sales and far short of President Randall's goal of a 3% net return on sales. It should be mentioned that write-offs over the past three years were double the previous rate, and distort net profit comparisons. While the optimistic objective of a 3% return on sales may take some time to achieve, there is a good possibility of producing a 10% return on invested capital which could raise net profit to about $1.10 per share. At the same time, a return of 2% on sales of $45 million would boost earnings to about $1.30 per share. Thus, the common shares are highly leveraged both as to sales and as to capital employed in the business. At the current price of $10 the common shares of General Steel Wares have interesting capital gain potential.

TROUBLED HISTORY

From a peak level of $3.71 per share in 1951 earnings of General Steel Wares declined to 34¢ per share in 1954 before recovering to $1.26 in 1958. Despite capital expenditures of $8 million, between 1950 and 1958, the Company was only able to achieve a 3% gain in sales from $27.5 million to $28.3 million. Increased operating costs caught the Company, like many secondary manufacturers, in a well publicized profit squeeze. Profit margins deteriorated from 3.84% of sales in 1952 to 2.11% in 1958 and return on invested capital declined from 9.52% in 1952 to 5.15% in 1958.

WHAT THE MERGER MEANT

Late in 1959, General Steel Wares and The Easy Washing Machine Company were merged on a share exchange basis. GSW became the continuing company but major shareholders of Easy Washing held effective control and the management of Easy took over direction of the combined operations.

General Steel Wares acquired the leading washing machine line in Canada to complement its McClary ranges, refrigerators, freezers and water heaters. This enabled the Company to offer a complete selection of "white-goods" to retail dealers.

More important, however, General Steel Wares gained key personnel with the experience necessary to place the Company in a competitive position. Almost immediately management embarked on a program designed to streamline operations by eliminating unprofitable lines, modernize production facilities and integrate the sales, merchandising, promotion and service departments.

The new management team, which had successfully piloted Easy to a leading position in the Canadian washing machine industry, is headed by R. C. Berkinshaw, as Chairman of the Board, and S. J. Randall, President and Managing Director. Mr. Berkinshaw, Chairman of the Board of the Goodyear Tire and Rubber Company of Canada and a director of numerous other Canadian companies, has been associated with Easy from the beginning while Mr. Randall, rated as one of Canada's top manufacturing sales executives, has been President of Easy since 1945. Mr. Randall is First Vice-President of the Canadian Manufacturers Association and was recently appointed Chairman of the Ontario Economic Council. Under the leadership of these two men, Easy's sales advanced from about $1 million in 1945 to $8.9 million in 1950 and $7.7 million at the time of the merger in 1959.

THE INVENTORY PROBLEM

Considerable headway was made during 1959. Consolidated sales increased 8.1% over 1958 to $33 million despite the elimination of lines which had produced $2 million sales volume in 1958. In anticipation of a further sales increase in 1960 and the possibility of a steel strike in the U.S., inventories of raw materials,

supplies, work in progress and finished goods were increased by $3,000,000 over the abnormally low level at the end of 1958. This heavy inventory position was to prove a considerable handicap when the economy entered the 1960-61 recession. A highly competitive market for consumer goods developed and industry-wide profitless, price-cutting conditions prevailed which precluded any possibility of an orderly movement of merchandise.

ECONOMIC DOWNTURN DELAYED COMEBACK

Instead of the hoped for jump in sales to $45 million, volume in 1960 dipped 11% to $34.7 million and the company wound up with a net loss of $577,884 after recovering $105,006 of 1959 taxes paid and $172,429 of income tax reductions deferred in prior years. As a result, the Company had a loss carry-forward of approximately $280,000 available to reduce taxable income in 1961. It is significant that the Easy Washing Machine Division remained profitable ($66,427) during this setback.

DIVERSIFICATION OF PRODUCT MIX KEY TO PROFITS

Although unfavourable marketing conditions continued well into 1961 further progress was made in expanding operations. In June 1960 a sales branch was opened in London, England, to promote the sale of GSW products in the United Kingdom and Western Europe and to install coin operated laundromats in major cities.

The Architectural Division was also expanded by acquiring from Eastern Steel Products Company the dies, tools and manufacturing equipment for the manufacture of kalamein and hollow frame doors, door frames and partitions.

This relatively new division holds promise of a tremendous development in the near future and has already made significant steps in this direction. Basically its products fall into three main categories: enamelled steel panels for exterior wall facing, removable partitions and prefabricated steel toilet and shower compartments.

Much progress has also been made in the field of interior moveable partitions, through the Company's association with the Mills Company of Cleveland, the continent's leading designers and producers of this type of equipment.

The Company has also developed, in its London plant, a new simplified type of utility partition, known as "Profile" in which a single standard channel section meets all requirements for any combination of steel and glass panels. Fitting and erection are remarkably fast simple and inexpensive. Over 3000 linear feet of partitions were installed by GSW in the new Prudential Insurance Building at King & Yonge Streets.

In the two years since the Company began manufacturing Fedders Air Conditioners, under an exclusive Canadian franchise, it is reported to have captured more than 25% of the estimated $10 million Canadian market. The qualities which have made Fedders the world's largest manufacturer of air conditioners have made it one of the most profitable winners in the GSW stable.

Coin operated laundromats are being established across Canada and, in addition, the Company provides automatic laundry facilities for almost 10,000 apartment dwellings. The trend toward self-serve coin operated stores is growing rapidly and is now extending into the dry cleaning field. GSW has an exclusive agreement to introduce the Maestrelli fully-automatic dry cleaning machine (the most efficient and truly "professional" unit) which should put the Company in a commanding position in this vigorously growing industry.

The GSW Presto line includes the new Presto Coffee Maker and the improved Steam and Dry iron as well as the various "Control Master" automatic pans, fry-pans and dutch ovens and the Presto Line of pressure cookers.

FINANCIAL POSITION

On December 31, 1960, the latest date for which a balance sheet is available, current assets were $15.5 million, including $10.5 million in inventories and current liabilities totalled $6.6 million, a current ratio of 2.3 - to -1. Working capital amounted to $8.8 million, just adequate for this type of business.

Consolidated capitalization includes $4.9 million in First Mortgage Bonds $4.7 million in 5% preferred shares and $6,821,275 common equity (478,734 shares). If the preferred stock is included with the long term debt, the debt equity ratio

supplies, work in progress and finished goods were increased by $3,000,000 over the abnormally low level at the end of 1958. This heavy inventory position was to prove a considerable handicap when the economy entered the 1960-61 recession. A highly competitive market for consumer goods developed and industry-wide profitless, price-cutting conditions prevailed which precluded any possibility of an orderly movement of merchandise.

ECONOMIC DOWNTURN PENALIZES COMPANY

Instead of the hoped for jump in sales to $45 million, volume in 1960 dipped 11% to $33.7 million and the company wound up with a net loss of $377,564 after recovering $105,000 of 1959 taxes paid and $172,429 of income tax reductions deferred in prior years. As a result, the Company had a loss carry-forward of approximately $850,000 available to reduce taxable income in 1961. It is significant that the Easy Washing Machine Division remained profitable ($50,427) during this setback.

DIVERSIFICATION OF PRODUCT MIX KEY TO PROFITS

Although unfavourable marketing conditions continued well into 1961 further progress was made in expanding operations. In June 1960 a sales branch was opened in London, England, to promote the sale of GSW products in the United Kingdom and Western Europe and to install coin operated laundromats in major cities.

The Architectural Division was also expanded by acquiring from Western Steel Products Company the dies, tools and manufacturing equipment for the manufacture of Kalamein and hollow frame doors, door frames and partitions.

This relatively new division holds promise of a tremendous development in the near future and has already made significant steps in this direction. Basically its products fall into three main categories: enamelled steel panels for exterior wall facing, removable partitions and prefabricated steel toilet and shower compartments.

Much progress has also been made in the field of interior moveable partitions, through the Company's association with the Mills Company of Cleveland, the continent's leading designers and producers of this type of equipment.

The Company has also developed, in its London plant, a new simplified type of utility partition, known as "Profile" in which a single standard channel section meets all requirements for any combination of steel and glass panels. Fitting and erection are remarkably fast simple and inexpensive. Over 3000 linear feet of partitions have installed by GSW in the new Prudential Insurance Building at King & Yonge Streets.

In the two years since the Company began manufacturing Fedders Air Conditioners, under an exclusive Canadian franchise, it is reported to have captured more than 25% of the estimated $10 million Canadian market. The qualities which have made Fedders the world's largest manufacturer of air conditioners have made it one of the most profitable winners in the GSW stable.

Coin operated laundromats are being established across Canada and, in addition, the Company provides automatic laundry facilities for almost 10,000 apartment dwellings. The trend toward self-serve coin operated stores is growing rapidly and is now extending into the dry cleaning field. GSW has an exclusive agreement to introduce the Maestrelli fully-automatic dry cleaning machine (the most efficient and truly "professional" unit) which should put the Company in a commanding position in this vigorously growing industry.

The GSW Presto line includes the new Presto Coffee Maker and the improved Steam and Dry Iron as well as the various "Control Master" automatic pans, fry-pans and dutch ovens and the Presto Line of pressure cookers.

FINANCIAL POSITION

On December 31, 1960, the latest date for which a balance sheet is available, current assets were $15.2 million, including $10.5 million in inventories and current liabilities totalled $6.6 million, a current ratio of 2.3 - to -1. Working capital amounted to $8.6 million, just adequate for this type of business.

Consolidated capitalization includes $4.9 million in First Mortgage Bonds $4.7 million in 5% preferred shares and $6,521,275 common equity (575,734 shares). If the preferred stock is included with the long term debt, the debt equity ratio

is 59:41, somewhat high leverage for secondary manufacturing. Leverage works both ways, and in the case of General Steel Wares, the price range of the stock is almost a classic of its kind through the effects of leverage.

STOCK MARKET PERFORMANCE

The market price of GSW shares declined from a 1951 high of \$23 to \$4½ in 1957. The price recovered to 19¼ in June 1959, buoyed by the optimism surrounding the merger with Easy, but subsequently declined during the 1959 - 60 general market sell-off to a low of \$7.00 in Nov. 1960. Dividends which had been paid at the rate of 10¢ quarterly since 1955 were omitted in the final quarter of 1960. Early in 1961 the price moved up to a high of \$12¼ and since then have consolidated between \$8½ and \$11. To preserve the continuity of its dividend record the Company declared a 5¢ per share dividend in December 1961. The shares seem to be in buying range at the present time.

February, 1962.

F. H. DEACON & COMPANY LIMITED
Research Department